Saving money isn't easy, especially when you don't know which plan to use. Here's a basic guide to help you achieve...

FISCAL FITNESS

By Sgt. 1st Class (Ret.) Phil Tegtmeier

You hit the gym four times a week to work your body into a lean fighting machine. You break open the books to keep up with changes in your career field. And, of course, you save 10 percent of your salary each month to build up your retirement nest egg. Well, maybe that last one is something you haven't tackled yet.

Putting money aside can be tough. Figuring out where to put that money to keep it safe and make it grow can be challenging. Stocks, mutual funds, U.S. Savings Bonds — the options are many. Fortunately, much more information is out there for investors today than ever before, thanks to radio and newspapers, the Internet, non-profit organizations and companies dedicated to helping investors make sound decisions about their futures.

We've gone to some of those experts to compile a basic guide to investing that NCOs can use to work toward their own goals and to help their soldiers better understand the investment options out there. We'll start with a short introduction to the world of investing, cover the various options available out there and offer some tips and advice on how to find experts to help you meet your fiscal fitness goals.

WHY SAVE?

A short-term cash reserve put aside somewhere comes in handy when the car breaks down or it needs new tires. Medium-term savings provide for that vacation you wanted to take next summer or the down payment you want to put on a house someday. Long-term retirement savings round out the fiscally fit household, providing for a comfortable future when the children are grown and gone and it's time to lay back and enjoy life.

The Securities and Exchange Commission is the government agency that regulates the world of money in the United States. The SEC also includes the Office of Investor Education and Assistance. It maintains a Web site (www.sec.gov/investor.shtml) investors can use to understand why all three types of savings are important and how these considerations affect your savings strategies. It's important to match the types of investing you make with specific savings goals. Not all types of savings and investing are made to satisfy the needs for short-, medium- and long-term goals. The site explains how setting goals for a strong financial future can help investors sort out their savings and investing needs. Here are some tips from the site.

Your goals will determine your tolerance for risk. For example, leaving an emergency fund in an interest-bearing checking account has the added benefit of making the cash readily available in a safe place and eliminates service charges most banks and credit unions charge for accounts with low balances. Keeping long-term savings in that account may be safe, but the interest rates are so low you could find yourself falling behind inflation.

If you'll need your money in the short-term, more conservative investments are appropriate. If you're saving for the long haul, you might decide to take more risks. Your personal risk tolerance depends on how old you are right now and how long you have until you plan to retire. Younger people can take more risks because they have more years available for their nest egg to grow again if a certain investment goes sour. People closer to retirement age shouldn't have all their money tied up in a risky investment because a catastrophic loss on their investment could wipe out their savings.

The SEC site advises investors to save for themselves first. Keeping food on the table and a roof over your head is important, and paying off high-interest credit card debt should be the first step toward getting serious about saving. Once you're sure you can cover basic needs, you can begin to get an idea about how much you'll have available to save. Then you can build a rough idea of where you want to go.

Spreading your savings in a variety of low-, medium- and high-risk investment options offers the greatest hedge against disaster while offering a chance to get your money to do some real workouts on your behalf. Diversification may not bring you pie-in-the-sky fantastic earnings in a market that's moving up, but it will certainly help you through a market like investors have been experiencing in the last year and a half. And knowing the basics of the types of investments available, along with their associated risks, can help you build your own fiscal fitness strategy.

The WEB Li$t

A few of the many organizations for financial wisdom

1. *www.investoreducation.org* The Securities Industry Association (SIA) brings together the shared interests of more than 600 securities firms to accomplish common goals. SIA member-firms (including investment banks, broker-dealers, and mutual fund companies) are active in all U.S. and foreign markets and in all phases of corporate and public finance.

2. *www.afsaef.org* The American Financial Services Association Education Foundation was established in February 1990 as a nonprofit 501(c) 3 organization to heighten consumers' awareness of personal financial responsibility. AFSAEF's mission is to help consumers realize the benefits of responsible money management, understand the credit process, and seek help if credit problems occur.

3. *www.investinginbonds.com* The materials and data provided through the Bond Market Association Web site are intended for general informational purposes only, and are not intended to provide specific investing, tax, business or legal advice to any individual or entity.

4. *www.fpanet.org* The Financial Planning Association is the membership organization for the financial planning community. FPA's primary aim is to be the community that fosters the value of financial planning and advances the financial planning profession.

5. *www.nefe.org* The National Endowment for Financial Education® is a non-profit 501(c) 3 foundation dedicated to helping all Americans acquire the information and gain the skills necessary to take control of their personal finances.

6. *www.siainvestor.org* At SIA Investor, the Security Industry Association's investor education Web site, you'll find investing basics, financial tools and insights from industry experts.

7. *www.nice.emich.edu* Established in 1973, NICE is part of the Division of Extended Programs at Eastern Michigan University. NICE is an institute for professional development, training and research. It is also a resource clearinghouse in personal finance that provides economic and consumer education. NICE provides professional development, training and consultation for K-12, corporate, military and community personnel.

WHAT'S OUT THERE

The editors of *CNN* and *Money* magazine offer a basic course for would-be investors called *Money 101* (http://money.cnn.com/pf/101/). This interactive learning tool teaches the basics on stocks, mutual funds and bonds. It also offers much of the same fiscal fitness advice from the SEC Web site; we'll use it to focus on the big three investment options available.

When you buy stock in a company, you are a part owner of that firm and have some say, though maybe small, in how the company operates. Owning stock in a company entitles you to a portion of the buildings, cars and trucks, earnings and losses the issuing company has as holdings. Not only can the value of the company go up and down,

Financial planning enters academies

Sgt. Maj. of the Army Jack L. Tilley wants to ensure that NCOs get the best possible financial planning and retirement investments available. Plans are underway to add this subject to the NCO Education System (NCOES).

Soldiers attending the Primary Leadership Development Course have been taking a 1.7-hour session on the basics of financial planning since last summer. More in-depth blocks of instruction are being developed for integration into basic and advanced NCO courses and the Sergeants Major Course. Each level of financial planning will increase with the levels of NCOES because the financial needs of most soldiers also increase with promotion.

"We want to make the training progressive and sequential," said Master Sgt. Guy A. Eichman, U.S. Army Sergeants Major Academy's Directorate of Training and Doctrine. Eichman is on the team responsible for developing and proposing lesson objectives for the financial planning lessons. He said training developers will use the "crawl-walk-run" principle in designing tasks to be mastered at all levels within NCOES. "The classes will not make anyone an expert on the subject," said Sgt. Maj. Brian H. Lawson, chief of the Course Management Division at the Academy. "Instead, we want the instruction to be the catalyst for soldiers to get interested in their roles as financial providers; furthermore, we want leaders at all levels to talk with subordinates about money matters." Though adding the new blocks of instruction comes in the midst of a major review of NCOES and the Critical Task Review Board (see story on this year's Commandants Workshop on page 6), the additions have priority.

"Teaching the basics of saving, investing and using money wisely is something we owe to our young soldiers," Tilley said. "We're not telling soldiers they have to invest, but we are giving them the basics in understanding the need to plan for the future." The *NCO Journal* will track course changes and make announcements as training support plans become finalized within NCOES.

but the company can also spread out its profits for the year among investors by paying dividends on every share. You make money from stocks in two basic ways, either by selling the stock at a price higher than what you paid or from the dividends the company sends you.

Some stocks are riskier than others because some companies are less stable than others. People who buy stock in the largest companies in the world can be fairly assured of buying into a company that will be around for the long haul. Bill Gates of Microsoft made his fortune by developing software, and anyone who bought his company's stock 20 years ago is probably off in Tahiti enjoying life in the sun. But for every successful company there are other companies that never make it to the big time.

Investment advisors group stocks by company size, by the economic sectors they operate in (automobiles or medicines, for example) and by earnings patterns. Making the right decision on which stocks to buy depends in part on your personal risk tolerance. But an even bigger factor in how you choose to invest in stocks depends on how much money you have available to invest. Some stocks sell for more than $100 a share, making it tough for a sergeant to buy if he has only $40 a month to invest.

Mutual funds offer one alternative to stocks. When you buy into a mutual fund, you are pooling your money with other investors. Think of it as your money buying 40 percent of a share of a $100-a-share company. The mutual fund managers take your money, buy and sell stocks and share out the dividends those stocks pay among all of the mutual fund investors. Buying into a mutual fund offers small investors an easy way to diversify their holdings because the fund buys stocks in a number of companies. Mutual funds are available in types, giving investors a choice of buying stable funds, funds specializing in different sectors of the economy or funds specializing in earning quick income. Mutual fund managers take commissions. They do this either by charging you up front, paying a "load," or by taking their operating expenses out of the profits or before losses, "no-load." The SEC requires mutual fund managers to provide complete and accurate information to investors on the funds strategies and overhead costs and make that information available to consumers. Not all mutual funds deal in stocks, however. Some deal in the more stable bond market, which also deserves a look.

Bonds come in a variety of flavors, but they are all basically in the form of a loan. If a company needs to raise money to pay for a new factory or a town needs to build a new school, the company or township issues a bond. If you buy a bond, you are lending the issuer money. The issuer promises to pay you interest as long as the bond is active and give you back your money when the bond matures (reaches its end).

Investing in your future is a long-term project. It can be frustrating when you first start out if your returns don't seem worth all of the work.

Bonds have maturity lengths from 13 weeks to 10 years, depending on the type of bond.

Generally, stocks have outperformed bonds over the last 40 years. But some investors with low risk tolerance prefer the stability bonds offer, especially in government, state and municipal bonds. Although bonds pay lower interest rates than some stock dividends or mutual fund earnings pay, they are much more stable. The earnings from bonds are also tax-deductible in many cases. With a tax-free bond, not only do you make the interest the bond promises to pay, but the possibility also exists to wind up with a lower tax bill each year — which also saves you money. And bond funds, like mutual funds, offer investors a way to reap the benefits of diversification.

RETIREMENT PLANS

Another popular way of diversifying your investments is by taking part in a retirement plan where you work. The government recently opened participation in the Thrift Savings Plan to soldiers, as well as civilians. The TSP can serve as an example of how retirement programs can help you achieve fiscal fitness.

The TSP Web site (www.tsp.gov) outlines how the program works. Information is available that applies to civilians and soldiers alike, with separate areas for civilian- and soldier-specific information. Program participants may choose to direct their savings into any combination of one to five funds. Two of the funds are more-stable bond funds and three are stock funds. A private company manages the program on behalf of the government, acting as your investment advisor on your behalf. You sign up to have pay withheld from your monthly income, and experts take it from there.

Unlike a mutual or bond fund, though, money placed into a retirement account cannot be withdrawn whenever you like. The Federal government offers tax incentives to retirement fund participants as a way of getting people to invest in the future. Your money goes into the account, as well as any earnings you get from changes in the stock market or earnings from bond dividends. Stocks can also lose money, reducing the value of your retirement plan. But taking part in a retirement plan gives you access to the marvels of compounding, or having your money make money for you.

For example, $100 invested in an account earning 10.7 percent earnings annually becomes $200 after just six years. In another six, it becomes $400. If you were 24 when that first $100 went in, it alone would become $6,400 by the time you reach age 60. By the time you have to begin withdrawing from the retirement account, you've probably stopped working and will pay taxes only on what you withdraw, just as if it were income. But the withdrawals most likely will come when you're in a lower tax bracket anyway, and the tax rate won't be as high.

The TSP is the government's form of a retirement contribution program. Private companies offer their employees another type of retirement plan, called 401(k) plans after the law that authorizes them. By participating in a 401(k), an investor usually gains from the contributions the company makes to partially match the savings. When you change companies, you can bring any funds you've placed into the 401(k) plan with your old employer and "roll" them over into the new company's plan. Soldiers participating in TSP can also roll over their account to a civilian 401(k) plan when they leave service. They can also be rolled over into an individual retirement account as well.

Two types of IRAs exist, traditional and Roth, as explained at the *CNN* and *Money* magazine Web site. A traditional IRA offers tax-deferred growth.

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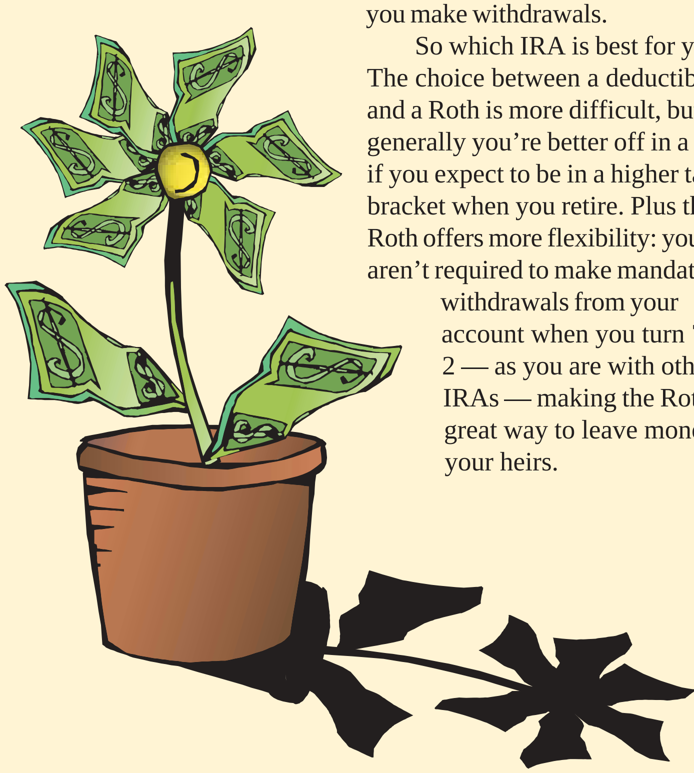
You deduct the contributions from your gross income when figuring your income taxes, and pay taxes on your investment gains only when you make withdrawals. A Roth IRA, by contrast, offers tax-free growth. You don't deduct the contributions from your income tax calculations, but you owe no tax on the earnings of those savings when you make withdrawals.



So which IRA is best for you? The choice between a deductible and a Roth is more difficult, but generally you're better off in a Roth if you expect to be in a higher tax bracket when you retire. Plus the Roth offers more flexibility: you aren't required to make mandatory withdrawals from your account when you turn 70 1/2 — as you are with other IRAs — making the Roth a great way to leave money to your heirs.

GETTING GOOD HELP

This guide gives some general information to put things into perspective. For a personal fiscal fitness plan, though, you may want to gain the help of an expert. These experts are available from the civilian world, but there are also assets available at your installation's Consumer Affairs Office. Finally, the Web offers access to consumer groups, professional organizations and other reliable sources for educational materials on how to ensure your fiscal fitness. Let's examine a few.

The editors of *CNN* and *Money* magazine advise investors looking for a financial planner to shop around before hiring someone to help them map out their fiscal fitness plans. Anyone can call himself a planner, but a good one will be someone who has helped a friend or family member, or someone else you trust who can give you a referral. Generally, if you're looking for a planner to help you decide where to set aside $50 a month, you wouldn't ask your rich uncle for a referral to a planner who handles million-dollar accounts. If you have no idea how to find a planner, or you need a few more candidates to interview, start with the Financial Planning Association (www.fpanet.org), which lets you search for planners by state, city or zip code. Look at your search results and seek out financial planners who have a C.F.P. (Certified Financial Planner) credential from the Certified Financial Planner Board of Standards.

These folks have come a long way from when they did little more than track down bad-check writers. Your Consumer Affairs Officer can help you plan a budget, avoid being taken by crooks and make decisions about your financial future. Usually a part of Army Community Services, CAOs provide access to other resources in the military community and can steer you in the right direction if nothing else.

Much of the information for this article came straight from the World Wide Web. In the past 10 years or so, Web access to financial accounts, online trading and investor advice has grown astronomically. Professional organizations, like stock brokers, mutual fund managers and financial planners maintain Web sites that provide neutral information without pushing the investor to any specific person or savings plan. We've selected a number of sites that we found useful in preparing this article so you can take the same lessons we did.

Almost everyone we talked to stressed the need for planning, commitment to a plan and keeping a cool head when markets tumble as being key to maintaining a healthy fiscal fitness plan. Investing in your future is a long-term project. It can be frustrating when you first start out if your returns don't seem worth all of the work. By letting the magic of compounding exercise your dollars, eventually you'll marvel at how fiscally fit you can become.